

September 12, 2013

Mr. Dennis Repenning
Chair, Board of Regents
Northern Kentucky University
Highland Heights, KY 41099

Dear Mr. Repenning:

In the wake of my decision to terminate Scott Eaton's employment as the Director of Intercollegiate Athletics, I directed our outside counsel, Dinsmore & Shohl ("Dinsmore"), to conduct a thorough financial review of the athletics department. Dinsmore retained the accounting firm of Clark Schaefer Hackett ("Clark") to perform that investigation under counsel's supervision.

I write to provide you with the key findings and principal recommendations provided to the University by Dinsmore as a result of its investigation.

INVESTIGATION

During the investigation, Dinsmore and Clark interviewed many current and former employees, including several interviews of Eaton. Dinsmore and Clark also reviewed the University's existing policies and procedures regarding financial controls, including procurement card policies. They also inspected and analyzed accounting, budget, and other financial records, such as receipts and account reconciliations. To facilitate this analysis, Clark used data extraction software, and Clark performed calculations of the financial loss resulting from Eaton's conduct.

KEY FINDINGS

Dinsmore and Clark determined that the majority of Eaton's fraudulent conduct occurred by him purchasing gift cards at a local Kroger store with his University procurement card and then using the gift cards for his personal use. This activity occurred between January 2007 and March 2013. The total amount of loss from this activity is \$262,106.

Dinsmore and Clark determined that Eaton also misappropriated University funds in several other ways:

1. Eaton used his procurement card to purchase items for his personal use at various other merchants;
2. Eaton purchased items from merchants using his procurement card, maintained a photocopy of the receipt for University accounting purposes, used the original receipt to return the items for "store credit," and then later used the store credit to purchase items for his personal use;

3. Eaton purchased items for his personal use from merchants using his procurement card and subsequently submitted falsified receipts to conceal the true nature of his purchase; and
4. Eaton used University printing services and materials, as well as University postage, to support his activities in the Massachusetts Basketball Coaches Association.

The sum total of these other fraudulent activities is \$49,109.

Dinsmore and Clark concluded that the principal reason that Eaton's fraudulent conduct was not detected earlier was because he manipulated other employees to gain their trust, and then he exploited their misplaced trust. Simply put, Eaton deliberately developed multiple ways to misappropriate University funds.

Regrettably, however, Dinsmore and Clark also found that there were failures of judgment and inaction on the part of other University employees over several years. Those employees were not in any way complicit in Eaton's misconduct. But they had multiple opportunities to detect, report, or thoroughly investigate reasonable suspicions and concerns, yet they failed to do so.

Dinsmore and Clark also concluded that, while the University's policies and financial controls are satisfactory, the University should strengthen its policies and financial controls to decrease the risk that a similar loss will occur in the future.

PRINCIPAL RECOMMENDATIONS

Dinsmore and Clark provided me with several recommendations. These recommendations fall into two distinct categories. The first category includes recommendations that will foster an institutional culture that will deter and detect unethical behavior. The second category includes recommendations that will enhance the University's financial controls with respect to procurement cards.

In order to create a culture where all faculty, staff, and students recognize their ethical obligation to report conduct that may be inappropriate, unethical, unlawful, or contrary to University policy, Dinsmore and Clark recommend the following actions:

1. The Code of Conduct should: (a) include a way for faculty and staff to obtain advice before making decisions that might constitute a violation; (b) include a way for faculty, staff, and students to confidentially report their concerns about potential violations by faculty and staff; (c) designate the University's Compliance Officer as the official within the University's administration to whom concerns or suspicions can be reported; (d) expressly state that faculty and staff who violate the Code of Conduct may be terminated or reported to law enforcement officials; and (e) expressly state that all faculty and staff have an obligation to report conduct that violates the Code of Conduct and that the failure to do so may result in disciplinary action against them.

2. During the orientation of new faculty and staff, the University should emphasize the importance of adhering to the University's Code of Conduct. This training should include discussions of hypothetical scenarios. All new employees should sign a document indicating that they agree to honor the Code of Conduct.
3. There should be regular training for all current faculty and staff.
4. All faculty and staff, including the President and senior administrators, should be required annually to acknowledge in writing that: (a) they understand the Code of Conduct; (b) in the preceding year, they have complied with it; and (c) they are not aware of any conduct by other faculty and staff that would constitute a violation.
5. Ethics and integrity should be an element in the performance review of every senior administrator, including the President, Vice Presidents, and Academic Deans, as well as every manager.
6. The University should consider moving the Division of Financial and Operational Auditing, which includes compliance, to report to the Vice President for Legal Affairs and General Counsel. The Director of Financial and Operational Auditing and the Compliance Officer should meet regularly and privately with the President.
7. The University should consider moving the Office of the Comptroller to report to the Vice President for Planning, Policy, and Budget.

In order to strengthen the University's institutional capacity to prevent, deter, and detect fraud and abuse of procurement cards, Dinsmore and Clark recommend the following actions:

1. The University should reduce the number of faculty and staff who have procurement cards.
2. The University should review and revise the current policy regarding permissible and impermissible uses of the procurement card to make the distinctions more clear and comprehensive.
3. The University should conduct periodic training for procurement cardholders and those employees responsible for reconciliation of procurement card purchases.
4. The University should enforce the requirement that faculty and staff provide documentation that demonstrates that each use of a procurement card was legitimate and permissible under University policy.
5. The University should amend current policies and procedures to segregate organizationally the responsibilities of the procurement card user from the employee who is responsible for reconciling that user's purchases.
6. The University should regularly conduct a critical analysis of procurement card activity to assess whether policies and procedures need to be amended.

Mr. Dennis Repenning
Page Four

The University will promptly begin to implement these two sets of recommendations. I will provide a status report to the Board of Regents at its regularly scheduled meeting in March 2014.

RELATED ISSUES

There are two additional issues of which you should be apprised.

First, University personnel continue to cooperate fully with the law enforcement investigations into Eaton's conduct. The University has notified the prosecutors that, if Eaton is prosecuted, the University will petition the court to order that Eaton make full restitution for all losses his conduct caused to the University, including the University's costs of conducting our investigation, which as of August 1, 2013, total approximately \$145,000.

Second, Dinsmore and Clark have met with the University's new Director of Intercollegiate Athletics and the University's new Associate Athletic Director for Compliance. Based on their review of the results of our internal investigation, these experienced intercollegiate athletics administrators believe that there have been no violations of NCAA rules. They have contacted the Atlantic Sun about Eaton's conduct and our subsequent investigation of his conduct. Out of an abundance of caution, they will also contact the NCAA. I will keep you and the Board of Regents apprised of any developments in this regard.

CONCLUSION

The events that have prompted me to write this letter are unfortunate. Throughout the process, though, I have received the assistance and cooperation of people across the University, and I have also been fortunate to have the support and wise counsel of the Board of Regents. As a result of our collective, principled response, our University is now stronger – and we have great potential for even more success. We will achieve that success with a commitment to integrity. That is our pledge to you and the community we serve.

Because of the ongoing interest that this situation has received, I intend to share this letter with the University community.

Respectfully,



Geoffrey S. Mearns
President